

TIMBERLAND INDEX

ROBUST HOUSING MARKETS PROVIDE UPLIFT TO TIMBERLAND

Timberland investors can thank a strong housing market for the recent string of positive returns. Housing starts averaged 1.56 million on a seasonally-adjusted annualized basis for the third quarter, the best third quarter for new home construction in 15 years. That drove demand for lumber higher, which in turn helped lift prices across many wood markets in the United States. Amid higher log prices, the Timberland Property Index notched its fourth straight quarter of rising returns with a 1.89% gain in the third quarter. While the 1-year return of 5.01% may be low relative to the historic average, it is nevertheless the best annual return received by the Timberland Property Index in six years, since 2015 Q3.

A key contributor to the improved performance is the rising production of lumber. Despite the wide swings in lumber prices experienced nationwide since the onset of the coronavirus pandemic, sawmills have steadily raised output in an attempt to match the pace of home builders. According to Forisk, U.S. softwood lumber production is expected to increase 8.5% in 2021. More lumber produced results in more demand for large-sized logs known as sawtimber. For example, Log Lines reported that softwood sawtimber prices for September in the Northwest were 12% higher compared to one year ago. Higher log prices benefit forest assets though improved harvest income and rising property value, as the standing trees are now worth more. Consequently, third quarter performance of the Timberland Property Index was split evenly between income (EBITDDA) of 0.91% and appreciation of 0.98%.

Among the four major regions, the Northwest performed the strongest with a 4.26% total return for the third quarter. A spate of summer wildfires has reduced the availability of timber in that region. However, timberland holdings that were spared from the fires enjoyed higher demand for their wood. In addition, cutbacks in lumber production in the Canadian province of British Columbia as allowed the U.S. Northwest lumber producers to capture more market share from their northern neighbors. The combination of recent wildfires and Canadian cutbacks helped raise the value of timberland in the Northwest.

While not as strong as the Northwest, the Lake States and Northeast recorded third quarter returns of 1.94% and 1.65% respectively. A healthy housing market has generated growing demand for hardwood cabinets and flooring, which rely on the quality hardwood sawtimber grown in both regions.

The weakest performing region was the South with 1.04% for the quarter. This was attributable in part to the storms and above-average rainfall that the region experienced over the summer and early fall. Very wet conditions on the ground limited logging, which cut the income generated among timberland properties for many parts of the South.

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TIMBERLAND TOTAL RETURNS							
	NPI	Total Timberland	Property Count	South	Northeast	Northwest	Lake States
3rd Qtr 2021	5.23	1.89	450	1.04	1.65	4.26	1.94
2nd Qtr 2021	3.59	1.70	464	1.25	4.14	2.49	0.98
One Year	12.15	5.01		3.41	8.03	8.67	4.69
Three Years	6.72	2.42		2.56	1.03	2.13	3.80
Five Years	6.84	2.90		2.41	1.03	4.48	3.31
Ten Years	8.99	4.89		3.86	1.88	8.13	4.68

TIMBERLAND EBITDDA RETURNS						
	NPI	Total Timberland	South	Northwest	Northeast	Lake States
3rd Qtr 2021	1.05	0.91	0.73	1.35	1.25	0.87
2nd Qtr 2021	1.06	0.79	0.70	1.09	0.37	0.83
One Year	4.22	3.39	2.95	4.83	2.46	2.87
Three Years	4.35	2.86	2.78	3.29	2.30	2.28
Five Years	4.47	2.90	2.69	3.61	2.59	2.23
Ten Years	4.92	2.80	2.55	3.60	2.33	1.88

TIMBERLAND APPRECIATION RETURNS						
	NPI	Total Timberland	South	Northwest	Northeast	Lake States
3rd Qtr 2021	4.18	0.98	0.31	2.91	0.40	1.06
2nd Qtr 2021	2.54	0.91	0.54	1.39	3.77	0.15
One Year	7.69	1.59	0.45	3.71	5.47	1.79
Three Years	2.29	-0.43	-0.21	-1.12	-1.24	1.49
Five Years	2.30	0.01	-0.27	0.86	-1.53	1.07
Ten Years	3.93	2.05	1.29	4.42	-0.44	2.76